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June 22, 2004

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
Director and Chief Medical Officer

A handwritten signature in blue ink, reading "Thomas L. Garthwaite", is written over the printed name and title.

SUBJECT: HEALTH DEPARTMENT BUDGET COMMITTEE OF THE WHOLE

This is to provide an update on the Department of Health Services' (DHS) fiscal outlook and the status of activities related to the implementation of Scenario III of the Department's system redesign plan.

DHS Fiscal Outlook

The attached schedule provides an update of the Department's Fiscal Outlook since the last Health Department Budget Committee of the Whole of on March 16, 2004. The Department's forecast cumulative shortfall through Fiscal Year 2007-08 has decreased from \$740.1 million to \$642.9 million.

Attachments A and B detail the changes in the Department's fiscal forecast. The change in the forecast shortfall can be attributed to a number of changes in the assumptions related to revenue realization and expenses by both the Department and the Chief Administrative Office. A detailed explanation of these items is included in Attachment B.

As the Department has previously noted, there continue to be a number of significant events that could transpire that would substantially alter the fiscal outlook for the worse. Specifically, the inability to close or transfer operation of Rancho Los Amigos National Rehabilitation Center or close 100 inpatient beds at LAC+USC Medical

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Center by June 30, 2005; failure to achieve extension of cost-based reimbursement for the Department's clinics and hospital outpatient areas beyond the June 30, 2005 expiration of the current 1115 Waiver or obtain Federally Qualified Health Center (FQHC) status; and/or, the federal government re-basing the Selective Provider Contracting Program (SPCP) waiver. If all these items transpire, the Department's cumulative shortfall could grow to \$1.522 billion in Fiscal Year 2007-08.

Additionally, federal and state activities related to restructuring the Medicaid and Medi-Cal programs could have a substantial impact on the Department's budget over the next several years. However, because neither of these reform efforts has been fully developed at this time, it is impossible to forecast their impact on the Department's budget situation. While it does not appear that federal changes in the Medicaid program will occur during this year, the State has indicated that it anticipates completion of its Medi-Cal restructuring proposal by August 2 and that it will begin to realize the targeted savings of \$400 million beginning in Fiscal Year 2005-06. As has been noted previously, this restructuring could subsume all other federal Medicaid waivers in the State, including the SPCP Waiver (which is set to expire in December 2004), under which DHS receives its base Medi-Cal inpatient payments, SB 1732 reimbursement, and SB 1255 funds.

The Department is working closely with the Chief Administrative Office (CAO) and the County Legislative Strategist to develop a strategy for working with the State and Federal governments related to these proposals. Additionally, representatives from both DHS and the CAO actively participated in the State's Medi-Cal stakeholder process.

Implementation of Scenario III

While much of Scenario III was implemented in Fiscal Year 2002-03, there remain several areas in which the requisite savings either have been enjoined by the Federal District Court or have not been achieved.

As noted previously, the delay in closing or transferring Rancho Los Amigos National Rehabilitation Center and closing the 100 inpatient beds at LAC+USC Medical Center will result in \$149.3 million less in anticipated savings under Scenario III.

The original projected savings associated with the implementation of Scenario III was \$399.5 million in Fiscal Year 2007-08. As a result savings shortfalls, the forecast savings resulting from implementation of Scenario III has been revised down from \$349.7 million, as reported in the March forecast, to \$343.0 million. The change from the previous forecast is the result of adjustments in the following areas.

Mental Health Savings

As you know, DHS has been working with the Department of Mental Health (DMH) to come to a common understanding of the costs and reimbursements associated with psychiatric services delivered within DHS. Through that process, the two departments have found multiple areas for mutual collaboration and opportunities to improve the quality and efficiency of the care that is rendered. However, we remain in a state of disagreement regarding the magnitude of the remaining inefficiencies in the DHS delivery model and the level of funding due DHS.

Based on the Department's analysis, the total costs associated with the provision of psychiatric services in DHS facilities has decreased from \$88.6 million in Fiscal Year 2001-02 to a projected \$78.9 million in Fiscal Year 2004-05. At the same time, total revenue, which includes payments from DMH, as well as other forms of reimbursement, has dropped from \$51.0 million in Fiscal Year 2001-02 to a projected \$34.6 million in Fiscal Year 2004-05.

While the Department recognizes the fiscal challenges facing DMH, if this funding shortfall is not addressed, DHS may eventually be required to cut other medical services, such as outpatient services, in order to maintain current levels of emergency and inpatient psychiatric care. We are continuing to work together to come to resolution of this issue.

DHS has revised its anticipated savings in this area from the March forecast of \$16.5 million in Fiscal Year 2003-04 to \$6.3 million, to reflect estimated savings that include the transfer of the outpatient psychiatric programs at King/Drew Medical Center and LAC+USC Medical Center from DHS to DMH.

King/Drew Medical Center Efficiency Savings

The Department has previously informed your Board it would be delaying implementation of the Fiscal Year 2004-05 installment of the 16 percent efficiencies at King/Drew Medical Center from July 1 to October 1, 2004 (Item 3A on Attachment D). Because of the work required to ensure the facility's compliance with federal Medicare participation and accreditation standards, this delay is being extended to November 1, 2004 and will reduce the anticipated savings at the hospital in Fiscal Year 2004-05 from \$40.4 million to \$38.1 million. The Department has completed a detailed financial assessment of the costs associated with every area of the hospital, down to the clinical service level and has established a number of program specialty

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review teams to evaluate staffing patterns at King/Drew Medical Center and make recommendations for specific cuts.

Other Changes

The forecast also includes an adjustment in the estimated cost associated with converting High Desert Hospital to a Multi-service Ambulatory Care Center (MACC) (Item 6A on Attachment D). As a result of revised savings estimates, the savings associated with the conversion of the hospital to a MACC have increased in Fiscal Year 2003-04 from \$8.4 million to \$9.2 million.

Finally, the savings associated with the Comprehensive Health Center efficiencies (Item 9A on Attachment D) have increased from \$9.0 million to \$10.6 as a result of increased savings at Humphrey Comprehensive Health Center.

As has been discussed previously, the Department's fiscal outlook is extremely variable. There remain a broad range of outstanding federal and state actions that could substantially impact the current budget shortfall over the next several years. The Department continues to work aggressively to achieve the savings included in Scenario III, as well as to identify additional savings opportunities.

I will continue to keep you apprised of these activities. Please let me know if you have any questions.

TLG:ak

Attachments

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors

FISCAL OUTLOOK - JUNE 10, 2004

(\$ IN MILLIONS BASED ON FY 03-04 SUPPLEMENTAL BUDGET RESOLUTION)

Line #		FISCAL YEARS / COLUMNS							TOTAL / (7)
		2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)		
1.	Surplus/Deficit as of June 26, 2002								
2.	Scenario III Reductions / Use of Designation Funds								
		\$	(326.6)	\$	(549.2)	\$	(709.4)		
			267.8		327.8		357.5		
3.	Original Fiscal Stabilization Revenue Request to help fund Scenario III (Not Budgetary Shortfall by FY)								
		\$	(58.8)	\$	(221.4)	\$	(351.9)	\$ (1,443.1)	
4.	Forecast Update **								
		263.9	303.9 ^(B)	243.4 ^(C)	78.2 ^(D)	30.2 ^(D)	(68.1) ^(D)		
5.	Forecast Surplus/(Shortfall) ^{(E),(F)}	\$	263.9	\$	245.1	\$	(273.7)	\$ (491.8)	
6.	Beginning Fiscal Year Fund Balance								
		121.0 ^(G)	353.1 ^(H)	598.2	620.2	346.5	-	-	
7.	Cumulative Year End Fund Balance/(Shortfall) ^{(E),(F)}	\$	384.9	\$	598.2	\$	620.2	\$ (491.8)	
8.	Defer Rancho Closure (191 beds) to July 1, 2005	\$	-	\$	(49.5)	\$	(55.7)	\$ (105.2)	
9.	Impact to Beginning Fiscal Year Fund Balance								
		-	-	(49.5)	(105.2)	(105.2)	(105.2)	N/A	
10.	Revised Cumulative Year End Fund Balance/(Shortfall)	\$	384.9	\$	548.7	\$	515.0	\$ (597.0)	
11.	Defer LAC+USC Medical Center 100 Bed Reduction to July 1, 2005	\$	-	\$	(16.1)	\$	(29.8)	\$ (45.9)	
12.	Impact to Beginning Fiscal Year Fund Balance								
		-	-	(16.1)	(45.9)	(45.9)	(45.9)	N/A	
13.	Revised Cumulative Year End Fund Balance/(Shortfall)	\$	384.9	\$	532.6	\$	469.1	\$ (642.9)	

NOTES TO FISCAL OUTLOOK

* The \$56.8 million of FY 02-03 service cuts are efficiencies already in the FY 02-03 budget base at this point in time and; therefore, doesn't appear on this schedule.

** Includes revenues previously shown separately (Measure B, SPOC/UPL Waiver, SB 855, and the Federal portion of the Outpatient Lawsuit Settlement), the current year's portion of which is already included in the FY 03-04 budget. These amounts are extrapolations from the original 90% Medicaid block grant request used to determine the fiscal stabilization revenues for the June 2002 DHS Strategic Plan, which only extended through FY 05-06.

(A) Up to \$20.0M of the FY 03-04 SPOC/UPL dollars may require DSH flexibility to be retained.

(B) Reflects release of the \$96.1M trust fund reserve.

(C) If CBRC/FQHC is not available after June 30, 2005, CBRC revenues, net of AB 915 backfill, will decline by \$61.9M, \$65.5M, and \$69.2M for FY's 05-06, 06-07, and 07-08, respectively.

(D) Per State DHS, CMS may "re-base" the Medicaid Upper Payment Limit (UPL) beginning FY 05-06. The impact on County DHS of this potential action is estimated to result in reductions of Medicaid revenues from FY 02-03 levels. These estimated reductions totaling \$374.6M, are \$97.6M, \$124.9M, and \$152.1M, for FY's 05-06, 06-07 and 07-08, respectively, and are not reflected in the above. When the UPL is fully implemented, the value could be as high as \$198.0M. There is also a non-hospital clinic UPL, which the State has yet to compute, that could further reduce County DHS' Medicaid revenues. Further, the full realization of the Scenario III savings, future State and Federal Budgets, accelerating healthcare inflation, and the President's Medicaid Relief Proposal create significant uncertainty regarding the Department's Fiscal Outlook.

(E) These amounts are potentially improved by managed care supplement and DSH flexibility proposals currently being worked on with the State and Federal governments.

(F) Reflects a beginning fund balance of \$366.9M less the \$245.9M fund balance included in the FY 02-03 Supplemental Budget Resolution.

(G) Reflects a beginning fund balance of \$384.9M less the \$31.8M fund balance included in the FY 03-04 Supplemental Budget Resolution.

(H)

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
FISCAL OUTLOOK - JUNE 10, 2004
(\$ IN MILLIONS BASED ON FY 03-04 SUPPLEMENTAL BUDGET RESOLUTION)

POTENTIAL IMPACT OF FUTURE ADVERSE ITEMS:

Line #		FISCAL YEARS / COLUMNS						
		2002-03 / (1)	2003-04 / (2)	2004-05 / (3)	2005-06 / (4)	2006-07 / (5)	2007-08 / (6)	TOTAL / (7)
14.	<u>Revised</u> Cumulative Year End Fund Balance/(Shortfall)	\$ 384.9	\$ 532.6	\$ 469.1	\$ 195.4	\$ (161.7)	\$ (642.9)	\$ (642.9)
15.	Inability to Closer/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2005, or thereafter	\$ -	\$ -	\$ -	\$ (93.9)	\$ (103.2)	\$ (111.1)	\$ (308.2)
16.	Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration on June 30, 2005	-	-	-	(61.9)	(65.5)	(69.2)	(196.6)
17.	Federal "Re-basing" of SPCP Waiver	-	-	-	(97.6)	(124.9)	(152.1)	(374.6)
18.	Medi-Cal Redesign	-	-	?	?	?	?	?
19.	Subtotal	\$ -	\$ -	\$ -	\$ (253.40)	\$ (293.60)	\$ (332.40)	\$ (879.40)
20.	Impact to Beginning Fiscal Year Fund Balance	-	-	-	-	(253.4)	(547.0)	N/A
21.	Potential Estimated Cumulative Year End Fund Balance/(Shortfall)	\$ 384.9	\$ 532.6	\$ 469.1	\$ (58.0)	\$ (708.7)	\$ (1,522.3)	\$ (1,522.3)

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
MARCH 2, 2004 THROUGH JUNE 10, 2004

	Fiscal Year / \$ In Millions					Total
	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	
(1) Revised Estimated Cumulative Year-End Fund Balance / (Shortfall) - March 2, 2004	\$ 479.8	\$ 340.0	\$ 45.2	\$ (309.5)	\$ (740.1)	\$ (740.1)
(2) Adjust post-1115 Waiver CBRC designation or CBRC extension for hospital outpatient clinics based on recent CBRC audit results used to reduce pre-1115 Waiver expiration CBRC revenue estimates on line (3).	-	-	(24.8)	(25.2)	(26.0)	(76.0)
(3) Adjust on June 7, 2004 CBRC/FQHC revenues through the end of the 1115 Waiver based on the latest audit results and revised outpatient visit estimates for FY's 03-04 and 04-05.	(19.7)	(23.9)	-	-	-	(43.6)
(4) CAO increase in employee benefits per the draft Final Changes Budget Request for June 21, 2004. Change primarily relates to increased LACERA retirement costs for FY's 04-05 through 07-08 and revised LACERA credit amounts for FY's 04-05 through 06-07.	-	(14.1)	(15.4)	(28.5)	(70.6)	(128.6)
(5) CAO increase in budgeted "Other Revenue" per the Proposed Budget adopted by the Board on April 20, 2004 based on the Department's experience with year-end surpluses.	-	31.6	31.6	31.6	31.6	126.4
(6) CAO decrease in salaries per the draft Final Changes Budget Request for June 21, 2004 based on current vacancy levels within the Department, excluding nurses.	-	21.9	21.9	21.9	21.9	87.6
(7) CAO increase in Vehicle License Fees for FY 03-04 and FY 04-05 per estimates received on May 27, 2004.	25.5	12.9	13.0	13.1	13.2	77.7
(8) Adjust SB 855 to reflect DSH cliff relief in the Medicare Prescription Drug Bill and OBRA '93 DSH cap relief resulting from the latest CMAC agreement on May 13, 2004.	23.0	18.4	9.1	4.8	4.2	59.5
(9) Adjust Insurance revenue for one-time change from cash basis to accrual basis accounting as required by the Auditor-Controller.	28.4	-	-	-	-	28.4
(10) Remove the planned savings from contracting out of OMC administration for FY's 04-05 through 07-08.	-	-	(8.0)	(8.0)	(8.0)	(24.0)
(11) Adjust the planned savings from restructuring of psychiatric services for FY's 03-04 and 04-05.	(10.2)	(3.2)	-	-	-	(13.4)
(12) Adjust LAC+USC Transition/EMR costs per the draft Final Changes Budget Request for June 21, 2004.	1.6	28.3	(10.2)	(9.9)	(9.8)	-
(13) Change in current fiscal year operating forecast received on May 1, 2004 / Other.	4.2	4.4	3.9	(2.2)	(7.1)	3.2
(14) Forecast improvement/(reduction) roll-forward	-	52.8 ⁽²⁾	129.1 ⁽²⁾	150.2 ⁽²⁾	147.8 ⁽²⁾	-
(15) Revised ⁽¹⁾ Estimated Cumulative Year-End Fund Balance / (Shortfall) - June 10, 2004	\$ 532.6	\$ 469.1	\$ 195.4	\$ (161.7)	\$ (642.9)	\$ (642.9)

Notes

- (1) Assumes Rancho Los Amigos NRC and LAC+USC 100 beds will be closed June 30, 2005, CBRC/FQHC will be extended for each year beyond FY 04-05, and the SPCP Waiver will not be re-based.
- (2) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$52.8 million in FY 04-05 is \$532.6 million - \$479.8 million from FY 03-04.

DHS Fiscal Outlook

Attachment A provides an update through June 10, 2004 of the Department's Fiscal Outlook. Attachment B is a high level summary of the key developments, and their fiscal impact, since our last update through March 2, 2004. The estimated cumulative shortfall through FY 07-08 has decreased from \$740.1 million to \$642.9 million. In the event that any of the following three events transpire, they could cause this estimate to increase once again, as follows:

	<u>\$ In Millions</u>
Estimated Cumulative Year-End Fund Balance/ (Shortfall) as of June 10, 2004	\$(642.9)
--Inability to Close/Transfer Rancho and Reduce LAC+USC Beds by 100 on June 30, 2005, or thereafter	(308.2)
--Inability to Extend CBRC Revenues (or obtain FQHC approval) Beyond Current 1115 Waiver Expiration (June 30, 2005)	(196.6)
--Federal "Re-basing" of SPCP Waiver	(374.6)
<u>Potential</u> Estimated Cumulative Year-End Fund Balance/(Shortfall) as of June 10, 2004	<u>\$(1,522.3)</u>

DHS, along with the CAO, County Counsel and the County's Legislative Strategist, continue to pursue preventing these three events from transpiring.

We have updated the revenue loss associated with the inability to extend CBRC revenue (or obtain FQHC approval) beyond the current 1115 Waiver expiration on June 30, 2005 from \$182.3 million to \$196.6 million. This was based on recent discussions with County Counsel regarding likely final Medi-Cal Schedule of Maximum Allowance reimbursement and AB 915 backfill revenues.

Also, as mentioned in the Department's last update, the new State administration is seeking a Federal 1115 Waiver, under which to restructure the California Medi-Cal program. The State's goal is now to complete the restructuring design by August 2, 2004 and to begin saving \$400 million per year Statewide beginning in FY 05-06. This restructuring, which is yet to be finally defined, may encompass the SPCP Waiver, which expires in December 2004, and could have a major impact on the Department's Fiscal Outlook. We are actively working with the State, its consultant, the California Healthcare Association's DSH Task Force, and the California Association of Public Hospitals to achieve as favorable an outcome to the County as possible from this process.

SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS) (a)

FISCAL YEARS 2002-03 THROUGH 2007-08

(\$ in millions)

Line #.	Board Decision Date	Planned/ Imple- mentation Date	Status as of 06/10/04	PLANNED SAVINGS - LINE #. VS. FORECAST SAVINGS - LINE #. A.						
Line #. A.				2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	
HOSPITALS										
1.	Planned reduction of LAC+USC 100 beds	10/02	05/03	Court injunction	\$ 2.000	\$ 16.100	\$ 29.800	\$ 31.900	\$ 34.100	\$ 36.500
1. A.	Forecast savings				(b)	(b) (c)	(c)	31.900	34.100	36.500 (n)
2.	Planned LAC+USC efficiencies	10/02	07/05		-	-	-	20.100	20.700	21.300
2. A.	Forecast savings				-	-	-	20.100	20.700	21.300
3.	Planned 16% efficiencies at MLK/D	06/02	05/03		2.800	20.900	46.200	61.900	63.800	65.700
3. A.	Forecast savings (e)			07/03	(b)	20.900	38.057 (d) (1)	61.900	63.800	65.700
4.	Planned closure of RLANRC or alternate governance	10/02 & 06/03	07/04		-	58.600 (m)	64.800	70.400	77.400	85.000
4. A.	Forecast Saving (e)			Court injunction	-	9.100 (c)	10.894 (c) (2)	70.400	77.400	85.000
6.	Planned conversion of HDH to a MACC	06/02	05/03		1.400	9.800	11.100	12.500	14.100	16.000
6. A.	Forecast Saving (e)			07/03	(b)	9.266 (b) (3)	10.566 (f) (3)	11.899 (3)	13.422 (3)	15.231 (3)
7.	Planned capital cost avoidance at HDH	06/02	07/02		2.000	0.900	-	-	-	-
7. A.	Forecast Saving				(b) (g)	(b) (g)	-	-	-	-
8.	Planned restructure of psych services	10/02	10/02	Negotiations ongoing	0.200	20.200	25.300	29.200	33.600	38.600
8. A.	Forecast savings (e)				0.250	6.251 (h) (4)	9.662 (4)	6.550	6.740	6.950
COMPREHENSIVE HEALTH CENTERS										
9.	Planned CHC efficiencies	10/02	05/03		3.700	23.300	24.000	24.600	25.300	26.100
9. A.	Forecast savings (e)			07/03	(b)	10.617 (b) (5)	16.480 (f)	16.970	17.480	18.000
HEALTH CENTERS										
Northeast Area										
10.	Planned closure of 4 HC's	06/02	10/02		6.300	8.900	9.300	9.700	10.100	10.500
10. A.	Forecast savings			10/02	6.300	8.900	9.300	9.700	10.100	10.500
Coastal Area										
11.	Planned closure of 1 HC	06/02	10/02		1.000	1.400	1.400	1.500	1.600	1.700
11 A.	Forecast savings			10/02	1.000	1.400	1.400	1.500	1.600	1.700
Southwest Area										
12.	Planned closure of 4 HC's	06/02	10/02		12.700	18.100	18.700	19.400	20.200	21.000
12. A.	Forecast savings			10/02	7.400	12.995 (b)	13.020 (f)	13.500	14.060	14.620
San Fernando Valley Area										
13.	Planned closure of 2 HC's	06/02	10/02		3.200	4.500	4.700	4.800	4.900	5.000
13. A.	Forecast savings			10/02	3.200	4.500	4.700	4.800	4.900	5.000
Antelope Valley Area										
14.	Planned 5% efficiency from AVIDHS Partnership	06/02	10/02		0.030	0.200	0.200	0.200	0.200	0.200
14. A.	Forecast savings			10/02	0.030	0.200	0.200	0.200	0.200	0.200
OTHER										
16.	Planned PPP visit reductions	06/02	09/02		12.500	15.000	15.000	15.000	15.000	15.000
16. A.	Forecast savings			09/02	12.500	15.000	15.000	15.000	15.000	15.000
20.	Planned Public Health reductions	06/02	10/02		6.700	9.200	9.400	9.700	10.000	10.300
20. A.	Forecast savings			07/02	7.500	7.730 (b)	7.960 (f)	8.200	8.450	8.700
21.	Planned contract out of OMC Admin	06/02	05/03		2.300	8.000	8.000	8.000	8.000	8.000
21. A.	Forecast Saving (e)				2.300 (i)	(b)	-	- (6)	- (6)	- (6)
22.	Planned cost/revenue adjustments (j)	10/02	07/03	07/03	-	25.700	41.600	38.600	38.600	38.600
SCENARIO III PLANNED SAVINGS TOTAL (k)					\$ 56.830	\$ 240.800	\$ 309.500	\$357.500	\$377.600	\$399.500
LESS: FORECAST SAVINGS AS OF 06/10/04					40.480 (l)	132.559	178.839	311.219	326.552	343.001
SAVINGS SURPLUS / (SHORTFALL)					\$ (16.350)	\$(108.241)	\$(130.661)	\$ (46.281)	\$ (51.048)	\$ (56.499)
LESS: COURT ORDERED ENJOINED SAVINGS					-	65.60	83.71	-	-	-
ADJUSTED SAVINGS SURPLUS / (SHORTFALL)					\$ (16.350)	\$ (42.641)	\$ (46.955)	\$ (46.281)	\$ (51.048)	\$ (56.499)

Note: Shaded items are revisions from the last Fiscal Outlook Update of 3/2/04. (Please refer to changes listed on Page 2)

The attached footnotes are an integral part of the Scenario III Summary Report.

SCENARIO III SUMMARY (PLANNED VS. FORECAST SAVINGS) ^(a)

FISCAL YEARS 2002-03 THROUGH 2007-08

(\$ in millions)

Notes:

- (a) From projected budgets compared with FY 01-02 service level for each year.
- (b) The savings projections originally projected in FY 02-03 have been covered by the surplus from DHS' FY 02-03 operations. DHS' FY 02-03 final surplus was \$263.9 million. The savings projections originally projected in FY 03-04 are being covered with the estimated surplus from DHS' FY 03-04 operations.
- (c) Pending outcome of the litigation (RLA - Rodde Case Scheduled Court Date 2/22/2005) and (LAC+USC/RLA - Harris Case Scheduled Court Date 4/26/2005). This estimate will be updated when more information is available. \$9.1 million for Rancho represents the difference between \$58.6 million accelerated Rancho closure savings and \$49.5 million 191 bed FY 03-04 variable net operating cost. In FY 04-05, \$10.894 million reflects the cumulative savings with an additional \$1.794 million S&S savings in the FY 04-05 Proposed Budget due to reductions in contracts that will not affect Census.
- (d) Reflects a savings delay of four months in FY 2004-05, up from three months.
- (e) Revised savings as of June 10, 2004.
- (f) The revised savings amounts for FY 04-05 and forward are calculated based on the ratios between the original savings and the revised savings for FY 03-04.
- (g) The CAO has suggested that DHS utilize the savings from the DHS funded projects in order to meet the targeted savings as outlined in the Proposed Savings Plan for HDH Capital Cost Avoidance. According to the CAO, the savings from the HDH Capital Cost Avoidance is not a savings to DHS.
- (h) DHS revised the FY 03-04 savings for psych services restructuring from \$20.2 million to \$16.5 million in savings for psych services restructuring. However, the CAO Supplemental Budget Resolution includes a savings of \$6.3 million (original psych services net cost of \$20.2 million less a reduction in net cost of \$10.5 million and adjusted for an error at K/DMC of \$4.3 million). Negotiations are still ongoing regarding the restructure, however, it appears there will be no additional savings beyond the \$6.3 million included in the CAO Supplemental Budget for FY 03-04. The FY 04-05 savings is based on the FY 04-05 CAO Proposed Budget savings of \$9.7 million. FY's 05-06 and forward reflect the loss off additional revenue, primarily due to the expiration of the 1115 Waiver.
- (i) OMC met the \$2.3 million target through existing one time FY 02-03 operational savings, even though the contracting out to LA Care has not happened.
- (j) Cost/revenue adjustments refer to revenues generated by facilities to be closed, which can still be collected by Health Services and distributed across the system.
- (k) Excludes one-time expenses such as costs associated with layoffs, facility closure costs, and facility transition costs. Health Services has not yet completely identified or quantified these costs but proposes that they could be partially paid for with Tobacco Settlement funds.
- (l) The revised Scenario III total excludes those items that were covered by surplus/savings from DHS' FY 02-03 operations.
- (m) Although not originally in Scenario III of the June 2002 DHS Strategic Plan, the Board approved a one-year acceleration of the Rancho savings on 06/23/03.
- (n) Does not take into account the opening of the LAC+USC replacement facility on July 2007.

Changes made to shaded items are revisions from the last Fiscal Outlook Update of 3/2/04 as follows:

- (1) Line 3.A - Forecast savings of \$40.389 million decreased by \$2.332 million to \$38.057 million based on the Efficiency Adjustment in the FY 04-05 CAO Final Changes Budget Request. The revised saving reflects four months implementation delay.
- (2) Line 4.A - Forecast savings of \$9.1 million increased by \$1.794 million to \$10.894 million based on S&S reductions made in the FY 04-05 DHS Final Changes Budget Request due to reductions in contracts that will not affect Census.
- (3) Line 6.A - Forecast savings of \$7.987 million increased by \$1.279 million to \$9.266 million based on the March 2004 Financial Performance Analysis Report provided by the facility. The revised savings amounts for FY 04-05 and forward are calculated based on the forecast savings plus the incremental change to the targeted savings plan between each fiscal year.
- (4) Line 8.A - Forecast savings for FY 03-04 revised from \$16.5 million to \$6.3 million based on the latest information from DMH. FY 04-05 savings revised from \$13.1 million to \$9.7 million based on the FY 04-05 CAO Proposed Budget.
- (5) Line 9.A - Forecast saving of \$9.989 million increased by \$0.628 million to \$10.617 million based on the March 2004 Financial Performance Analysis Report provided by the facility.
- (6) Line 21.A - Removal of \$8.0 million in savings for FY's 05-06 through 07-08 due to uncertainty in contracting out OMC.